FORTUNE BRANDS INC
Form 10-K
February 28, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number 1-9076

Fortune Brands, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3295276**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

520 Lake Cook Road, Deerfield, IL 60015-5611

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (847) 484-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $3.125 per share	New York Stock Exchange, Inc.
$2.67 Convertible Preferred Stock, without par value	New York Stock Exchange, Inc.
8 5/8% Debentures Due 2021	New York Stock Exchange, Inc.
7 7/8% Debentures Due 2023	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

The aggregate market value of registrant s voting stock held by non-affiliates of registrant, at June 29, 2007 (the last day of our most recent second quarter), was $12,574,438,306.80. The number of shares outstanding of registrant s common stock, par value $3.125 per share, at February 8, 2008, was 154,031,382.

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DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Stockholders of registrant to be held on April 29, 2008 (to be filed not later than 120 days after the end of registrant s fiscal year) (the 2008 Proxy Statement) is incorporated by reference into Part III hereof.

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PART I

Item 1. Business.

(a) General development of business.

Fortune Brands, Inc. is a holding company with operating companies engaged in the manufacture, production and sale of Spirits, Home and Hardware products, and Golf products. References to we, our and the Company refer to Fortune Brands, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

The Company was incorporated under the laws of Delaware in 1985 and until 1986 conducted no business. Prior to 1986, the businesses of the Company s subsidiaries were conducted by American Brands, Inc., a New Jersey corporation organized in 1904 (American New Jersey), and its subsidiaries. American New Jersey was merged into The American Tobacco Company (ATCO) on December 31, 1985, and the shares of the principal first-tier subsidiaries formerly held by American New Jersey were transferred to the Company. In addition, the Company assumed all liabilities and obligations in respect of the public debt securities of American New Jersey outstanding immediately prior to the merger. On May 30, 1997, the Company s name was changed from American Brands, Inc. to Fortune Brands, Inc. (Fortune Brands).

As a holding company, the Company is a legal entity separate and distinct from its subsidiaries. Accordingly, the right of the Company, and thus the right of the Company s creditors (including holders of debt securities and other obligations) and stockholders to participate in any distribution of the assets or earnings of any subsidiary is subject to the claims of creditors of the subsidiary, except to the extent that claims of the Company itself as a creditor of such subsidiary may be recognized, in which event the Company s claims may in certain circumstances be subordinate to certain claims of others. In addition, as a holding company, a principal source of the Company s unconsolidated revenues and funds is dividends and other payments from subsidiaries. The Company s principal subsidiaries currently are not limited by long-term debt or other agreements in their abilities to pay cash dividends or to make other distributions with respect to their capital stock or other payments to the Company.

Fortune Brands success is driven by leading consumer brands in three categories: Spirits, Home and Hardware products and Golf products. First, we enhance shareholder value by profitably building leading consumer brands to drive sales and earnings growth, as well as to enhance long-term returns. We drive growth by positioning our brands and businesses to outperform their respective markets. We do this by developing innovative new products and effective marketing campaigns, expanding customer relationships, extending brands into adjacent categories and developing international growth opportunities. Second, we pursue business improvements by operating lean and flexible supply chains and business processes. Third, we promote organizational excellence by developing winning cultures and associates. Fourth, we seek to enhance returns by leveraging our breadth and balance and financial strength to drive shareholder value. While our first priority is internal growth, we also strive to achieve growth and high returns through acquisitions, dispositions and joint ventures. Finally, over time, we enhance shareholder value through other initiatives, such as using our financial resources to repurchase shares and pay attractive dividends.

We made the following acquisitions and divestitures in recent years:

In 2007:

> We sold the William Hill and Canyon Road wine brands and related assets to E. & J. Gallo Winery (August 2007).

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> We sold the remaining U.S. wine assets to Constellation Brands, Inc. for $884.5 million, subject to purchase price adjustments for cash and working capital levels (December 2007).

> We sold the U.S. distribution rights and related assets for The Dalmore Scotch Whisky to UB Group for $58.0 million (December 2007).

In 2006:

> We acquired SBR, Inc. (now Simonton Holdings, Inc.), a company of brands including Simonton Windows, a leading vinyl-framed window brand in North America, for a total cost of $599.8 million (June 2006).

> We sold the Cockburn s port wine production assets, retaining the ownership of the brand, for $66.4 million (July 2006).

In 2005:

> We acquired more than 25 spirits and wine brands as well as certain distribution assets in key markets from Pernod Ricard S.A. for a total cost of approximately $5.25 billion. Among the brands acquired were Sauza tequila, Maker s Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt Scotch and Clos du Bois super-premium wines (July 2005).

> We completed the spin-off of the Office products business, ACCO World Corporation, to the Company s shareholders. In addition to retaining their shareholdings in Fortune Brands, each Fortune Brands shareholder received one share of ACCO Brands Corporation for each 4.255 shares of Fortune Brands stock held (August 2005).

In 2004:

> Therma-Tru Holdings, Inc. acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems, and Master Lock Company acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. The aggregate purchase price of these two acquisitions was $30.9 million (June 2004).

In 2003:

> We acquired Therma-Tru Holdings, Inc. Therma-Tru is the leading brand of residential entry doors in the United States. The cost of the acquisition was $924.0 million (November 2003).

> We acquired Capital Cabinet Corporation, American Lock Company and Wild Horse Winery for an aggregate cost of $123.7 million (various dates in 2003).

On an ongoing basis, we review the portfolio of brands owned by our operating companies and evaluate options for increasing shareholder value. Although no assurance can be given as to whether or when any acquisitions or dispositions may be made, we could finance acquisitions by issuing additional debt or equity securities. The possible additional securities from any completed acquisitions could increase the Company s indebtedness or shares outstanding, and these debt or equity securities might impact the Company s diluted earnings per share. We also consider other corporate strategies intended to enhance shareholder value, including share repurchases and higher dividend payments. We cannot predict whether or when any particular strategy might be implemented or what the financial effect thereof might be upon the Company s results of operations, cash flows or financial condition.

Forward-Looking Statements

This Annual Report on Form 10-K contains statements relating to future results. Readers are cautioned that these are forward-looking statements, as defined in the Private Securities Litigation

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Reform Act of 1995, that involve a number of risks and uncertainties. Readers are cautioned that these forward-looking statements speak only as of the date hereof, and the Company does not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date of this Report. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

- competitive market pressures (including pricing pressures),
- consolidation of trade customers,
- successful development of new products and processes,
- ability to secure and maintain rights to intellectual property,
- risks pertaining to strategic acquisitions and joint ventures, including the potential financial effects and performance of such acquisitions or joint ventures, integration of acquisitions and the related confirmation or remediation of internal controls over financial reporting,
- changes related to the potential privatization of V&S Group,
- ability to attract and retain qualified personnel,
- general economic conditions, including the U.S. housing market,
- weather,
- risks associated with doing business outside the United States, including currency exchange rate risks,
- interest rate fluctuations,
- commodity and energy price volatility,
- costs of certain employee and retiree benefits and returns on pension assets,
- dependence on performance of distributors and other marketing arrangements,

> the impact of excise tax increases on distilled spirits,

> changes in golf equipment regulatory standards and other regulatory developments,

> potential liabilities, costs and uncertainties of litigation,

> impairment in the carrying value of goodwill or other acquired intangibles,

> historical consolidated financial statements that may not be indicative of future conditions and results due to the recent portfolio realignment,

> any possible downgrades of the Company s credit ratings,

as well as other risks and uncertainties detailed from time to time in the Company s Securities and Exchange Commission filings.

(b) Financial information about industry segments.

See Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

(c) Narrative description of business.

The following is a description of the business of the subsidiaries of the Company in the Spirits, Home and Hardware, and Golf business segments. For financial information about these business segments, see Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

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Spirits

Beam Global Spirits & Wine, Inc. (BGSW), with its affiliates, is a holding company in the distilled spirits business. The Company s operating subsidiaries include Jim Beam Brands Co. (JBBCo.), Future Brands LLC, a majority-owned subsidiary (Future Brands), Jim Beam Brands Australia Pty. Limited, Beam Global España S.A., Beam Global Spirits & Wine (U.K.) Ltd., Tequila Sauza S.A. de C.F., Alberta Distillers Limited, Canadian Club Canada, Inc., Maker s Mark Distillery, Inc., Courvoisier S.A.S. and Jim Beam Brands Canada LP. V&S Group owns 10% of our Spirits business. Fortune Brands owns 90% of the capital stock.

The Spirits business sells its products under a number of trademarks which are key to the continued success of our brands. The Spirits business owns most of its trademarks, including Jim Beam (#1 bourbon), Maker s Mark (#1 super-premium bourbon), Sauza (#2 tequila), Canadian Club (#2 Canadian whisky), Laphroaig (#1 single Islay malt Scotch whisky), and Courvoisier (one of the world s leading cognacs). The Company s trademarks for its strong national and regional brands include: Teacher s (Scotch whisky), Harveys (sherries), Cockburn s (port), Larios (gin), Whisky DYC (whisky) and Kuemmerling (bitters). Several trademarks are used under long-term licenses, including the mark DeKuyper (the #1 cordials line in the U.S.) which is produced and sold in the U.S. and Mexico under a license of unlimited duration and Gilbey s (gin and vodka in the U.S.) which has a current term until 2027 if not renewed.

Our spirits products are sold through recognized industry channels, including the Future Brands LLC and Maxxium Worldwide B.V. (Maxxium) joint ventures in which the Spirits business is a partner, and shareholder, independent distributors, and direct distribution in certain international markets, as well as global or regional duty free customers. Products are also sold through government-controlled liquor authorities in the 18 control states (and one county) in the U.S. that have established government control over certain aspects of the purchase and distribution of alcoholic beverages. The peak season for the Spirits business is the fourth quarter due to holiday buying.

In December 2007, we sold the remainder of our U.S. wine assets to Constellation Brands Inc. (Constellation) for $884.5 million, subject to purchase price adjustments for cash and working capital levels after selling two wine brands and related assets to E. & J. Gallo Winery in August 2007. The two transactions are collectively referred to as the sale of the U.S. Wine business. The sale to Constellation included Beam Wine Estates, Inc. s table wine brands (including Clos du Bois, Geyser Peak, Wild Horse, as well as the associated vineyards, winemaking assets, management and sales forces), though not its fortified wine brands (Harveys sherries and Cockburn s port). In addition, in December 2007, we also sold the U.S. distribution rights and related assets of The Dalmore Scotch Whisky to UB Group for $58 million.

In July 2006, we sold the Cockburn s port wine production assets for $66.4 million, but retained the ownership of the brand.

In July 2005, the Company purchased more than 25 spirits and wine brands as well as certain distribution assets (the 2005 Spirits Acquisition) from Pernod Ricard S.A. (Pernod Ricard). Brands acquired include Sauza tequila, Maker s Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt Scotch, Clos du Bois wines (sold December 2007), and leading regional and national brands and distribution operations in the U.K., Germany and Spain. The total recorded investment for the 2005 Spirits Acquisition, which included the initial payment, the purchase of Larios, supplemental brands purchased, purchase price adjustments and other settlements, as well as transactions costs, was approximately $5.25 billion.

In January 2006, substantially all of the 2005 Spirits Acquisition assets were legally transferred to Fortune Brands. We subsequently reached an agreement with Pernod Ricard on the amount of the

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adjustment to the consideration for the 2005 Spirits Acquisition as a result of higher actual historical profits than anticipated, working capital adjustments and additional adjustments to achieve economic results consistent with the parties intention to complete the 2005 Spirits Acquisition on a cash-free and debt-free basis. The net payment made to Pernod Ricard in the second quarter of 2006 was £134.3 million (approximately $252 million).

Principal markets for the products of the Spirits business are the U.S., the U.K., Australia, Spain, Germany and Mexico. Approximately 49% of our Spirits business s sales are to international markets.

The Company s Spirits business has changed significantly as a result of the 2005 Spirits Acquisition. Previously the Spirits business had strong market positions in the U.S. and Australia, and a smaller market position in Europe (primarily the U.K. and Germany). With the 2005 Spirits Acquisition, our Spirits business improved its competitive position, becoming much larger in scale and scope, more balanced globally in key growth markets, more focused on premium products, and broader in range of product offerings, adding strong brands in categories such as tequila, bourbon, cognac, Scotch whisky and Canadian whisky. We also now have significant business in leading regional and national spirits markets such as the U.K., Spain and Germany.

In November 2006, Rémy Cointreau S.A. (Rémy) gave notice to Maxxium that it will terminate its distribution agreement with Maxxium effective March 30, 2009. The Maxxium sales force distributes and sells spirits in key markets outside the United States, representing approximately one-third of our international Spirits sales. Other joint venture partners include The Edrington Group Ltd. and V&S. In connection with Rémy s termination, it is expected that Rémy will pay a substantial termination penalty to Maxxium. Based on the expected impact of Rémy s termination of the distribution agreement on Maxxium s financial position and results of operations, the Company currently estimates that its investment in Maxxium of $96.3 million is recoverable. Rémy Cointreau brands account for only about 10-15% of Maxxium s case volume. For additional information, refer to Note 6, Related Party Transactions, to the Consolidated Financial Statements, Item 8 of this Form 10-K.

The distilled spirits business is highly competitive. Based on information from independent industry statistical sources, our Spirits business is the largest U.S.-based producer and marketer of distilled spirits and is the 4^{th} largest premium spirits company in the world. We compete on the basis of product quality, brand image, price, service and innovation in response to consumer preferences. Major competitors include Diageo, Pernod Ricard, Bacardi, Brown-Forman, Rémy Cointreau and Constellation Brands.

Because whiskeys/whiskies, cognacs, brandies, ports and some tequila varieties are aged for various periods (generally, from three to ten years for whiskies, for example), the Spirits business maintains substantial inventories of maturing product in warehouse facilities. Production of maturing inventory is generally scheduled to meet demand years into the future, and production schedules are adjusted from time to time to bring inventories into balance with estimated future demand. In addition, the Spirits business may, from time to time, seek to purchase maturing spirits to meet estimated future demand or sell excess maturing spirits.

The principal raw materials for the production, storage and aging of distilled products are primarily corn and other grains for whiskeys/whiskies and other spirits, agave for tequila, new or used oak barrels and glass for bottles. These materials are generally readily available from a number of sources except that new oak barrels are available from only a few sources. JBBCo. has a long-term supply agreement with a third-party supplier for the purchase of new oak barrels. This agreement requires a minimum of three years notice prior to termination. JBBCo. purchases barrels from two other suppliers on a year-to-year basis pursuant to purchase orders.

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The principal raw materials used in the production of cognacs and fortified wines are grapes, barrels and glass for bottles. Grapes are purchased primarily from independent growers under long-term supply contracts or purchased on the spot market, and, from time to time, are affected by weather and other forces that may impact production and quality.

The production, storage, transportation, distribution and sale of our Spirits products are subject to regulation by federal, state, local and foreign authorities. Various countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits and fortified wines in whole or in part.

In many of the key markets for our Spirits business, distilled spirits are subject to federal excise taxes and/or customs duties as well as state/provincial, local and other taxes. Beverage alcohol sales could be impacted by higher excise tax rates. Although no federal excise tax increase is presently pending in the U.S., our largest market, many states are considering possible excise tax increases and the possibility of future increases cannot be ruled out. Excise or other tax increases are also considered from time to time in other key markets such as the U.K., Spain and Mexico. The effect of any future excise tax increases in any jurisdiction cannot be determined, but it is possible that any future excise tax increases could have an adverse effect on unit sales and increase existing competitive pressures.

Home and Hardware

Fortune Brands Home & Hardware LLC (Home and Hardware) is a holding company for subsidiaries in the Home and Hardware business. Subsidiaries include MasterBrand Cabinets, Inc. (MasterBrand Cabinets), Moen Incorporated (Moen), Therma-Tru Corp. (Therma-Tru), Simonton Holdings, Inc. (Simonton) and Fortune Brands Storage and Security LLC (Storage and Security). Home and Hardware s operating companies compete on the basis of product quality, price, service and responsiveness to distributor and retailer needs and end-user consumer preferences. The home and hardware industry is highly competitive. Factors that affect our Home and Hardware business s results of operations include levels of home improvement and residential construction activity, principally in the U.S. Approximately 12% of Home and Hardware s sales are to international markets.

MasterBrand Cabinets manufactures custom, semi-custom, stock and ready-to-assemble cabinetry for the kitchen, bath and home. MasterBrand Cabinets sells under brand names including Aristokraft, Omega, Kitchen Craft, Schrock, Diamond, HomeCrest, Decorá and Kemper. MasterBrand Cabinets sells directly to kitchen and bath specialty dealers, home centers, wholesalers and large builders. In June 2003, MasterBrand Cabinets acquired Capital Cabinet Corporation. MasterBrand Cabinets competitors include Masco, American Woodmark Corporation and Norcraft Companies, as well as a large number of small suppliers. MasterBrand Cabinets is the second largest manufacturer of cabinetry in North America.

Moen manufactures faucets, bath furnishings, accessories, parts and kitchen sinks in North America and China. Sales are made through Moen s own sales force and independent manufacturers representatives, primarily to wholesalers, mass merchandisers, home centers and industrial distributors. Products are sold principally in the U.S. and Canada and also in China, Mexico and South America. Moen s chief competitors include Masco, Black & Decker, Kohler, American Standard and imported private-label brands. Moen is the #1 faucet brand in North America according to an independent industry survey.

In November 2003, the Home and Hardware business acquired Therma-Tru Holdings, Inc. Therma-Tru is the #1 residential entry door brand in the United States. Therma-Tru manufactures fiberglass and steel residential entry door and patio door systems, primarily for sale in the United States and Canada. Therma-Tru s principal customers are home centers and millwork building

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products distributors that provide products to the residential new construction market and home centers, as well as to the remodeling and renovation markets. Therma-Tru s competitors include Masonite, JELD-WEN and Plastpro. In June 2004, Therma-Tru acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems. In December 2007, Therma-Tru announced plans to exit the U.K. door market.

In June 2006, we acquired SBR, Inc., a privately held company consisting of brands including Simonton Windows, a leading brand of vinyl-framed windows and patio doors. Simonton products are principally manufactured and sold in the United States. Simonton s principal customers are home centers, wholesale distributors and specialty dealers that provide products to the residential market, primarily for both retrofit and new construction applications. Simonton s competitors include Silverline, Atrium and Milgard.

Storage and Security is comprised of the Master Lock and Waterloo product lines. Master Lock manufactures and sells key-controlled and combination padlocks, bicycle and cable locks, built-in locker locks, automotive, trailer and towing locks and other specialty safety and security devices. Sales of products designed for consumer use are sold to wholesale distributors, home centers and hardware and other retail outlets. Sales of lock systems are sold to industrial and institutional users, original equipment manufacturers and retail outlets. Master Lock competes with Abus, Kryptonite, W.H. Brady, Hampton and various imports in the padlock segment. In April 2003, Master Lock acquired American Lock Company, a U.S.-based manufacturer of solid body commercial padlocks. In June 2004, Master Lock acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. Master Lock is the #1 padlock worldwide. Waterloo manufactures tool and garage storage products, principally high-quality steel toolboxes, tool chests, workbenches and related products. Waterloo sells to Sears for resale under the Craftsman brand owned by Sears, and under the Waterloo brand name to specialty industrial and automotive dealers, mass merchandisers, home centers and hardware stores. Waterloo competes with Snap-On, Kennedy, Stanley, Stack-On and others in the metal storage segment, and with Stanley, Keter, Rubbermaid and others in the plastic hand box category. Waterloo is the #1 tool storage manufacturer in the U.S.

Product branding and innovation are important to the success of the Home and Hardware business. In addition to the previously discussed trademarks, patent protection helps distinguish our unique product features in the market by preventing copying and making it more difficult for competitors to benefit unfairly from our design innovation. The Home and Hardware business holds U.S. and foreign patents covering various features used in our faucet and bath furnishings, doors, windows, locks and security products as well as storage products.

Raw materials used for the manufacture of products offered by Home and Hardware s operating companies are primarily red oak, maple and pine lumber, particleboard, rolled steel, brass, zinc, copper, nickel, aluminum, glass and various plastic resins. These materials are available from a number of sources. Volatility in the prices of commodities and energy used in making and distributing our products impacts the costs of manufacturing our products. In 2007, the Home and Hardware business continued to experience increases in commodity and energy-related costs. While in the past we have been able to mitigate the impact of commodity cost increases through productivity improvements and passing on increased costs to our customers, there is no assurance that we will be able to offset these cost increases in the future.

Golf

Acushnet Company (Acushnet), together with its subsidiaries, is a leading manufacturer and marketer of golf balls, golf clubs, golf shoes and golf gloves. Other products include golf bags, golf outerwear and accessories. Acushnet s leading brands are Titleist and Pinnacle golf balls; Titleist and Cobra golf

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clubs; Scotty Cameron by Titleist putters; Vokey Design wedges; FootJoy golf shoes; FootJoy and Titleist golf gloves; and FootJoy outerwear. Acushnet products are sold primarily to on-course golf pro shops and selected off-course golf specialty and sporting goods stores throughout the United States. Sales are made directly in the U.S. and in other key international markets through subsidiaries and outside these areas through distributors or agents. Approximately 38% of Acushnet s sales are to international markets.

Acushnet and its subsidiaries compete on the basis of product quality, product innovation, price, service and responsiveness to consumer preferences. Acushnet has the leading market positions in golf balls (Titleist), golf shoes and golf gloves (FootJoy). Acushnet also is a leading U.S. competitor in golf clubs (Titleist & Cobra). In golf balls, Acushnet s main competitors are Nike, Callaway, Bridgestone, TaylorMade and Srixon. In golf clubs, Callaway, TaylorMade, Ping, Cleveland and Nike are the primary competitors. In golf shoes, Nike and Adidas are the main competitors. In golf gloves, Nike and Callaway are the primary competitors. Acushnet s business is seasonal and approximately 60% of sales occur in the first half of the year and less than 20% in the fourth quarter.

The principal raw materials used in manufacturing are synthetic rubbers, polymers, steel, titanium, and natural and synthetic leathers.

Acushnet s advertising and promotional campaigns feature a large number of touring professionals and club professionals using and endorsing its products. The market for the endorsement and promotional services of touring professionals has been and will continue to be increasingly competitive.

The future success of the Golf business will depend upon continued innovation, product quality and successful marketing across product categories. In addition, international market opportunities, especially in the Pacific Basin region, are contributing to growth for the Golf business.

Branding and product innovation are both important to the success of the Golf business. The Titleist, Cobra, FootJoy and Pinnacle trademarks are of particular importance to the business. Product innovation is a powerful growth engine in the golf segment, and our patent portfolio is an important resource to help inhibit competitors from copying or exploiting our innovations. The Company holds United States and foreign patents covering innovations and design features used in our golf balls, clubs and shoes and holds other licenses, trademarks and tradenames. There continues to be a substantial issue with knock-off and counterfeit golf clubs, which imitate or copy the protected features of original equipment manufacturers golf club products. Acushnet has an active program of enforcing intellectual property rights against those who make or sell these products.

The United States Golf Association (USGA) and the Royal and Ancient Golf Club (R&A) establish standards for golf equipment used in the United States and outside the United States, respectively. In recent years, each of the USGA and the R&A has enacted new rules further restricting the dimensions or performance of golf clubs and golf balls. In March of 2005, the USGA and R&A requested that manufacturers participate in a golf ball research project by manufacturing and submitting balls that would conform to an overall distance standard that is 15 to 25 yards shorter than the current standard of 317 yards. As a result of their recent research regarding spin, the USGA and R&A have issued a proposal to reduce the groove volume and limit the groove edge angle allowable on all irons and wedges. The USGA and R&A have adopted a rule change to allow greater adjustability in golf clubs, which went into effect on January 1, 2008. Existing rules and any new rules could change the golf products industry s ability to innovate and deploy new technologies and the competitive dynamic among industry participants, potentially impacting our Golf business.

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Employees

As of December 31, 2007, the Company and its subsidiaries had the following number of employees:

Spirits	2,828
Home and Hardware	22,771
Golf	5,316
Corporate	112
Total	31,027

Environmental Matters

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We adjust accruals as new information develops or circumstances change, and accruals are not discounted. At December 31, 2007 and 2006, environmental accruals amounted to $32.1 million and $33.1 million, respectively, and are included in non-current liabilities on the balance sheet. In our opinion, compliance with current environmental protection laws (before taking into account estimated recoveries from third parties, including insurers) will not have a material adverse effect upon our results of operations, cash flows or financial condition. See Item 7 Management s Discussion and Analysis of Results of Financial Condition and Results of Operations Pending Litigation Environmental Matters for more information.

(d) Financial Information about Geographic Areas.

We sell products primarily in the United States, Canada, Europe (primarily the U.K, Spain, Germany and France), Australia and Mexico. A change in the value of the currencies of these countries can impact our financial statements when translated into U.S. dollars. The exchange rates between some of the foreign currencies in which our subsidiaries operate and the U.S. dollar have fluctuated significantly in recent years and may do so in the future. We manufacture and source our products in the United States, Europe, Canada, Mexico, China, Thailand and other countries. We are subject to risks associated with changes in political, economic and social environments, local labor conditions, changes in laws, regulations and policies of foreign governments, as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. See Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

Website Access to SEC Reports

The Company s website address is www.fortunebrands.com. The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Company s website as soon as reasonably practicable after the reports are filed or furnished electronically with the Securities and Exchange Commission. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Policies, Code of Business Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, Charters for the Committees of our Board of Directors and other information related to the Company.

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

We believe that the following risks and uncertainties may be material to our business. Additional risks and uncertainties that we currently consider to be immaterial may also adversely affect our business. If any of the following risks actually occur, our business, results of operations and financial condition could be materially and adversely impacted.

We operate in highly competitive consumer categories.

While we largely compete for customers on the basis of product quality, brand strength and service, price is also an important basis of selection and competition. Our success depends on maintaining the strength of our consumer brands by continuously improving our offerings and appealing to the changing needs and preferences of our customers and end consumers. While our businesses are leaders in their categories and devote significant resources to continuous improvement of their products and marketing strategies, it is possible competitors may improve more rapidly or effectively, adversely affecting our sales, margins and profitability.

Demand for our products and our financial results are dependent on the successful development of new products and processes.

Our success depends in part on fulfilling consumer needs and anticipating changes in consumer preferences with successful new products and product improvements. We aim to introduce products and new or improved production processes on a timely basis to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products and to research and development of new approaches to supply, we may not be successful in the development of new products or these techniques, or our new products may not be commercially successful.

The inability to secure and maintain rights to intellectual property could adversely affect our business.

We have many patents, trademarks, brand names and trade names that are important to our business. Our business could be adversely affected by the loss of any major brand or by infringement of our intellectual property rights. We are also subject to risks in this area because existing patent, trade secret and trademark laws offer only limited protection, and the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our products from infringement by others. In addition, others may assert intellectual property infringement claims against us or our customers.

A significant portion of our business is impacted by risks associated with fluctuations in the U.S. housing market.

Our home and hardware products are impacted primarily by demand for remodeling and repair on existing homes as well as demand for new homes. Demand for these end uses is significantly influenced by affordability, mortgage interest rates and availability, employment and consumer confidence, home prices and the inventory of homes for sale, as well as the number of homes constructed and, to a lesser extent, existing home sales. Demographic factors, such as aging housing stock, changes in population growth and household formation, affect levels of home improvement and residential construction over the longer term. While demographic trends are favorable for the long-term growth of the U.S. home products market, it is very difficult to predict the extent and duration of the ongoing downturn in the U.S. home products market as well as its adverse impact on our operating results.

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Continued consolidation of our trade customers, particularly in the home & hardware industry, could adversely affect our business.

Though large customers can offer efficiencies and unique product opportunities, consolidation increases their size and importance. These larger customers can make significant changes in their volume of purchases, seek price reductions and even become competitors for some products. Further consolidation could adversely affect our margins and profitability, particularly if we were to lose a significant customer.

Risks associated with our ability to continuously improve productivity and supply chain efficiency could adversely affect our business.

We need to continually evaluate our manufacturing processes and assess opportunities to reduce costs. Our success also depends in part on refining our supply chain to promote a consistently flexible supply chain that can respond to market pressures. Failure to achieve the desired level of flexibility could impair our financial results.

Our failure to attract and retain qualified personnel could adversely affect our business.

Our success depends in part on the efforts and abilities of our senior management team and key employees. Their motivation, skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract, motivate and retain members of our senior management team and key employees could have a negative effect on our operating results.

Risks associated with our strategic acquisitions and joint ventures could adversely affect our business.

We have completed a number of acquisitions and joint ventures, including the purchase of more than 25 spirits and wine brands and distribution assets from Pernod Ricard S.A. in 2005, and the acquisition of the Simonton window business in 2006, as well as the formation of spirits sales distribution joint ventures, including Future Brands LLC in the U.S. in 2001 and Maxxium for certain international markets in 1999. We will continue to consider acquisitions and joint ventures as a means of enhancing shareowner value. Acquisitions and joint ventures involve risks and uncertainties, including: difficulties integrating acquired companies and operating joint ventures, retaining the acquired businesses customers and brands, and achieving the expected financial results and benefits of transactions, such as revenue increases, cost savings, and increases in geographic or product presence; loss of key employees from acquired companies; implementing and maintaining consistent standards, controls, procedures, policies and information systems; and diversion of management s attention from other business concerns.

Future acquisitions could cause us to incur additional debt, issue shares, increase contingent liabilities, increase interest expense and amortization expense related to intangible assets, as well as experience dilution in earnings per share and return on capital. Future impairment losses on goodwill and intangible assets with an indefinite life, or restructuring charges, could also occur as a result of acquisitions.

Various external conditions including economic, weather and business conditions could adversely impact our sales and profitability.

Demand for our products is sensitive to many external factors. While total consumption of spirits is relatively stable year to year, the faster growth of higher priced premium spirits may be adversely impacted by economic pressures on the consumer, particularly those that impact discretionary consumer spending in our categories. Our Home and Hardware business is impacted primarily by demand for remodeling and repair of existing homes as well as demand for new homes. Our Golf business is impacted by vacation travel volume and corporate spending. Weather conditions are also

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a factor impacting year-to-year comparisons in our Home and Hardware and Golf segments. The impact of these external factors is difficult to predict, and one or more of these factors could adversely affect our business. Despite proactive efforts to control costs, reduced production in our facilities resulting from the factors above could result in lower operating margins and profitability.

Risks associated with interest rate fluctuations as well as commodity and energy availability, price increases and volatility could adversely affect our business.

We are exposed to risks associated with interest rate fluctuations and commodity price volatility arising from weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. We buy commodities, including steel, copper, zinc, titanium, glass, plastic, resins, wood, particleboard, grains and grapes. We also grow agave plants for tequila production. Availability, increases and volatility in the prices of these commodities as well as products sourced from third parties, and energy used in making, distributing and transporting our products, could increase the manufacturing costs of our products. While in the past we have been able to mitigate the impact of these cost increases through productivity improvements and passing on increasing costs to our customers, there is no assurance that we will be able to offset these cost increases in the future. While we may use derivative contracts to limit our exposure to commodity price volatility, the exposures under these contracts could still be material to our results of operations and financial condition.

We manufacture and source many products internationally and are exposed to risks associated with doing business globally.

We manufacture and source our products in the United States, Europe, Canada, Mexico, China, Thailand and other countries. Accordingly, we are subject to risks associated with changes in political, economic and social environments, civil unrest, possible expropriation, local labor conditions, changes in laws, regulations and policies of foreign governments, trade disputes with the U.S., as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. Exchange rate fluctuations may impact the cost of sourced products and our financial results.

We sell products globally and are exposed to currency exchange rate risks.

We sell products in the United States, Europe and other areas (principally Canada, Mexico and Australia). While we hedge certain foreign currency transactions, a change in the value of the currencies can impact our financial statements when translated into U.S. dollars. The exchange rates between some of the foreign currencies in which our subsidiaries operate and the U.S. dollar have fluctuated significantly in recent years and may do so in the future.

Our businesses rely on the performance of wholesale distributors and other marketing arrangements and could be adversely affected by poor performance or other disruptions in our distribution channels.

Our spirits are sold principally through wholesale distributors for resale to retail outlets. The replacement, poor performance or financial default of a major distributor or one of its major customers could adversely affect our Spirits business. Our Home and Hardware business relies on a distribution network comprised of consolidating customers. Any unplanned disruption to the existing distribution could adversely affect our revenues and profitability. A disruption could be caused by the sale of a distributor to a competitor, financial instability or default of the distributor or one of its major customers, or other unforeseen events.

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Costs of certain employee and retiree benefits may continue to rise.

Increases in the costs of medical and pension benefits could continue and negatively affect our business as a result of: increased usage of medical benefits by current and retired employees and medical inflation in the United States; the effect of any decline in the stock and bond markets on the performance of our pension plan assets; potential reductions in the discount rate used to determine the present value of our benefit obligations; and changes in law and accounting standards that may increase the funding of, and the expense reflected for, employee benefits.

Changes in regulatory standards could adversely affect our businesses.

In the Golf business, our ability to develop and market new products is potentially diminished by rules governing equipment standards set by industry associations, such as restrictions on golf club head size and shaft length, and the overall distance standard for golf balls. Changes in equipment standards could adversely impact our Golf business. In the Home and Hardware business, California recently enacted legislation mandating new standards for acceptable lead content in plumbing products for sale in California effective January 1, 2010. While we believe our Moen faucet business will execute plans to meet the new standards by the effective date, implementation is not certain and financial results may be adversely impacted. Our Spirits business is subject to extensive regulatory requirements regarding distribution, production, labeling, and marketing. Changes to regulation of the beverage alcohol industry could include increased limitations on advertising and promotional activities or other non-tariff measures that could adversely impact our spirits business.

Increased excise taxes on distilled spirits could adversely affect our Spirits business.

Distilled spirits are subject to excise tax in many countries where we operate. No federal excise tax increase is presently pending in the United States, our largest market. However, many states and other jurisdictions are considering possible excise tax increases. The effect of any future excise tax increases in any jurisdiction cannot be determined, but increased excise taxes could have an adverse effect on our business by reducing demand.

Potential liabilities and costs from litigation could adversely affect our business.

Our business is subject to risks related to litigation, including with respect to alcohol-related liability, as well as tobacco products made and sold by former subsidiaries. It is not possible to predict the outcome of pending or future litigation, and, as with any litigation, it is possible that some of the actions could be decided unfavorably.

Downgrades of our credit ratings could adversely affect us.

If Moody s, S&P or Fitch were to downgrade our credit rating, such a downgrade could result in loss of access to the commercial paper market and increase our cost of capital. Downgrades of our credit ratings could also affect the value or marketability of our outstanding notes.

Historical financial statements may not be reflective of our future financial condition and results of operations due to recent portfolio changes or other reasons.

We recently made changes in our business, as discussed in this report, including the acquisition of the Simonton window business and the sale of our U.S. Wine business. Although we believe that this report contains all material information that is necessary to make an informed assessment of our assets and liabilities, financial position, profit and losses and prospects, historical financial statements do not necessarily represent what our results of operations or financial position will be for any future periods.

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An impairment in the carrying value of goodwill or other acquired intangible assets could negatively affect our operating results and shareholder equity.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangible assets represents the fair value of trademarks, trade names and other acquired intangible assets as of the acquisition date. Goodwill and other acquired intangible assets expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated for impairment by our management at least annually. If carrying value exceeds current fair value as determined based on the discounted future cash flows of the related business, the intangible is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment include changes in the industries in which we operate, particularly the impact of the economic environment on our Home and Hardware business, as well as competition and advances in technology, a significant product liability or intellectual property claim, or other factors leading to reduction in expected long-term sales or profitability. If the value of goodwill or other acquired intangible assets is impaired, our earnings and shareholders equity could be adversely affected.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The Company leases principal executive offices in Deerfield, Illinois. The following table indicates the principal properties of the Company and its subsidiaries:

	Manufacturing		Distribution					
Segment	Plants		Centers		Warehouses		Other[(a)]	
	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased
Spirits								
U.S.	5				9	1		
Europe	12		1		11	1		
Mexico	1	1			2	6		
Asia	1			10		6		
Canada	1				1			
Australia/New Zealand								
Home and Hardware								
U.S.	37	7	2	14	1	8		
Canada	1	2		2		3		
Mexico	3	1	1	1				
Asia	1	1		2		1		
Europe	1	2		1				
Central America				1				
Golf								
U.S.	4	1	1	2			2	4
Asia	2	1	1	6				
Europe			1	2				1
Australia/New Zealand				2				
Canada				1				
Corporate								
U.S.								